Family Social Capital, Trust within the TMT, and the Establishment of Corporate Goals Related to Nonfamily Stakeholders

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Research Applied précis prepared by Andrew Hier, Cambridge Advisors to Family Enterprise

The authors conducted a study to analyze how structural and cognitive family social capital influences the establishment of corporate goals related to nonfamily stakeholders (EGNFS) in family firms. The article examines how family ties and interaction patterns could be the origin of valuable, unique, and hard-to-imitate resources and capabilities supporting the sources of competitive advantages of family firms, such as the capability to consider key stakeholders who are not part of the family itself. The authors sought to measure the relationship dynamics in the family that are likely to affect the relations between top management team members and relations with external stakeholders.

Implication for Practitioners

The results of this study have important implications for the management of families and family firms:

- Business families should make an effort to maintain emotional cohesion and encourage communication among their members. The management of family dynamics is vital for fostering strong relationships that allow common goals to be maintained in relation to key nonfamily stakeholders, especially when family managers dominate total management teams (TMTs), if the family business wishes to gain the competitive advantages associated with addressing nonfamily stakeholder goals.
- A high level of trust between managers is a key condition to ensure the EGNFS. This implies that family managers must be selected not only on the basis of their benevolence but also their integrity and capacity. That is, even though family membership alone could be a good base for trust, qualifications and experience cannot be avoided to guarantee a certain level of professionalism in the decision-making process.
- The development of governance mechanisms within the family, such as family councils and family protocols, could contribute toward keeping family relations healthy and toward developing norms in relation to the selection of family managers that could guarantee their professionalism.
- These governance mechanisms could be very useful to reinforce the consideration of nonfamily stakeholders in the establishment of goals for family firms, and this can be especially relevant when TMTs are not dominated by family members. In that case the instruments of governance should also establish ways to ensure that TMTs correctly manage the relationships with key stakeholders, as this is vital for the survival and development of the firm. Thus, for example, owning families should make sure that boards hire nonfamily managers who share an orientation toward attending to key nonfamily stakeholders.

Summary of the Research

Data was collected from 374 family and nonfamily members of top management teams (TMTs) in 173 non-listed Spanish family firms, where at least two family members could be found among the members of the board of directors and the top management team; and at least one family member was the Chairman of the board of directors, the CEO or the General Manager.

Three key research questions were explored:
1. How do relationships inside business families affect the degree to which family firms foster the establishment of goals related to the interests and needs of key stakeholders separate from the family itself, such as employees, clients, and society in general?

2. How do the relationships between family members affect the level of trust between the members of the top management team (TMT) in family firms?

3. How does the level of trust between the members of the TMT affect the establishment of goals for non-family stakeholders (EGNFS)?

In order to fully understand this study, it’s first necessary to look at the definitions of the key variables used in this study:

- **Family social capital (FSC)** is defined as the set of resources embedded within and derived from the network of relationships between members of a family; i.e., the features of linkages among the members of the family that give it cohesiveness and thus facilitate the pursuit of collective goals. There are three dimensions of internal social capital: structural, cognitive, and relational:
  - **The structural dimension** refers to the internal network of ties inside a family resulting from the established patterns of interaction, involvement, and strength of ties among relatives. The strength of these ties depends on the degree of emotional intensity, intimacy, and frequency of relations between the members of the (family) network. This dimension includes those resources that facilitate interaction and communication between the members of the network.
  - As a result of these interactions, the family can develop shared representations, interpretations, and systems of meanings among its members - **the cognitive dimension**.
  - The structural and cognitive resources of social capital can be considered as antecedents of the **relational dimension** of social capital, which comprises the resources created through personal relationships, such as trust, norms, obligations, and identity.

- **Trust** in particular has been considered the key family firm relational resource, being a fundamental basis for cooperation, information flow, and knowledge sharing, thus serving to create unique capabilities for family firms. Research has suggested that trust is critical to the effectiveness of work teams. In the specific case of top management teams (TMT) the level of trust between members has been said to facilitate the development of certain organizational capabilities, such as the capability to improve interaction with stakeholders. TMTs are usually responsible for the decisions related to stakeholders.

- **Nonfamily stakeholders** include customers, employees, and the community or society. Maintaining good relationships with stakeholders has a positive effect on several components of business performance – for example, employee satisfaction, customer satisfaction, community satisfaction, social legitimacy and reputation, or financial performance. Thus, the ability to satisfy stakeholders constitutes a source of competitive advantage since each of them provides resources that are critical to the long-term success of the firm.

The authors consider family relationships from a social capital approach in order to argue that structural and cognitive social capital resources within the family unit are the antecedents of trust, a key relational social capital resource for the family firm. They seek to analyze how family social capital directly affects the EGNFS and how family social capital indirectly affects the EGNFS due to its influence on firms’ relational social capital, that is, on the level of trust among the members (family and nonfamily) of TMTs.

The results of the study show that family social capital, and concretely, its structural dimension, is a determining factor for the engagement of family firms on corporate goals related to key nonfamily stakeholders (clients, employees, and society). That is, the degree of emotional cohesion, open
communication, and intergenerational attention between the members of the family determine not only the quality of the relationships between them but also their relationships with other stakeholders.

However, the cognitive dimension of family social capital, that is, the level of agreement of family members in terms of views and interests, has no influence on the EGNFS. It seems that the members of the family do not need to agree on views and interests to share a common concern in nonfamily stakeholders. The authors speculate that too much homogeneity in views and perspectives between family members could have certain dysfunctional consequences such as groupthink, which could hinder a good assessment of the diversity of aims and needs in the stakeholders' environment.

Results show that structural family social capital (FSC) directly influences the establishment of corporate goals related to nonfamily stakeholders. Also there is an indirect influence through the effect FSC has on the relational social capital (trust) in the TMT.

There are different results depending upon whether the top management team has a majority of family members (familial TMTs) or whether there is a majority of non-family members (non-familial TMT).

- **Familial TMTs**: Emotional cohesion, open communication, and intergenerational attention between family managers are not enough to allow for a process of decision making that takes into account nonfamily stakeholders. For firms with familial TMTs, structural family social capital has a positive effect on the level of trust among TMT members, and the influence of family structural social capital on EGNFS is exerted only indirectly through the trust generated in the TMT. This presence of trust at the TMT level may be necessary to overcome the interests of individual family members that might conflict with non-family stakeholder goals.

- **Non-familial TMTs**: When nonfamily members are a majority in TMTs, the process of decision making is less affected by family issues, and the EGNFS may depend more on the orientation and ethics of these managers than on the trust dynamics between them or the strength of ties between the members of the owning families.

**About the contributor:**

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